

NHRS Board of Trustees

Minutes – July 13, 2021

Note: These minutes from the July 13, 2021 Public Session were executed and approved at the August 10, 2021 Board of Trustees meeting.

**Board of Trustees
July 13, 2021**

Public Minutes

**New Hampshire Retirement System
54 Regional Drive
Concord, New Hampshire 03301**

Participating: *Trustees Tim Lesko, Chair; Scott Christensen*, Christopher Coates*, Bill Hart, Sue Hannan, Maureen Kelliher, Robert Maloney, Monica Mezzapelle, Scott Myers, and Donald Roy*.*

**These Trustees participated remotely because they had meeting conflicts, as permitted under RSA 91-A:2. As a result, all votes were by roll call.*

Absent: Trustees Melvin Friese, Andrew Martineau, and Kenneth Merrifield.

Staff: Jan Goodwin, Executive Director; Tim Crutchfield, Deputy Director and Chief Legal Counsel; Larry Johansen, Director of Investments; Gerard Murphy, Director of Finance; Frank Clough, Director of Information Technology; Nancy Miller, Director of Member Services; Marty Karlon, Director of Communications & Legislative Affairs; Rosamond Cain, Director of Human Resources; Mark Cavanaugh, Esq., Associate Counsel & Compliance Officer; Diana Crichton, Esq., Hearings Examiner; Nancy Cone, Internal Auditor; Nina Calkins, Administrative and Contact Center Manager, Chris Murphy, Information Technology Administrator; David Crepeault, Information Security Officer; and Christine Rice, Administrative Assistant.

Chair Lesko called the July 13, 2021 regular meeting of the NHRS Board of Trustees to order at 10:01 a.m. Having established a quorum, Chair Lesko called for a vote to approve the public minutes of the Board of Trustees meeting on June 8, 2021.

On a motion by Trustee Myers, seconded by Trustee Maloney, Chair Lesko opened the floor for discussion. The Board voted to approve the minutes, as amended, with Trustee Hannan abstaining.

Next, Trustee Mezzapelle gave the Audit Committee report, noting the Committee met this morning prior to the Board meeting. The Committee reviewed the Internal Audit Tracking Report, the FY21 Audit Plan, and the data-security reassessment responses. Trustee Mezzapelle shared that four outstanding audit issues remain, one, which will be completed with PGV3, another, with the employer audit process, which is expected

to be completed by December 21, 2021, and the other two are related to employer audit adjustments. Next, the Committee went over the FY21 Internal Audit Plan, and Trustee Mezzapelle reported that the GASB 67 & 74 Employer Census Data Audits continue, and all 23 audits are complete, with 20 already submitted to Plante Moran. Trustee Mezzapelle stated that the FY21 External Audit is in process, and Plante Moran would be conducting interim fieldwork at the end of July. She then provided an update on the FY21 data-security reassessment responses, noting that seven items are outstanding, and, of the seven, two are under review, and five are ongoing matters. She informed the Board that the Committee reviewed and approved the FY22 Risk Assessment and draft internal audit plan.

In closing, Trustee Mezzapelle gave a status report on PGV3, which is 43% complete, with Deliverable 3 (D3) 77% complete. She noted that work continues on the Employer Rollout Plan, which is to assist participating employers in advance of when the final implementation of PGV3 occurs. Lastly, she reported that LRS identified the requirements for D4, which involves QDROs, insurance, medical subsidy, and benefit maintenance.

Trustee Roy presented the Governance Committee report, noting the Committee met following last month's Board meeting, to discuss the annual cyber insurance coverage renewal. At the time of the meeting, NHRS had only received two quotes, both from the System's incumbent carrier, Houston Casualty Company (Houston), at the current \$3 million limit, with one at the existing \$25,000 deductible, and the other at \$50,000. After discussion, the Committee unanimously voted to recommend to the Board that it approve the renewal of the System's cyber insurance with Houston Casualty at the \$3 million limit with a \$25,000 deductible, at an annual premium of \$26,532.80. Following the Committee meeting, the System received additional quotes by multiple carriers, but none was competitive with the Houston quotes.

On a motion by Trustee Hannan, seconded by Trustee Kelliher, the Board voted unanimously to approve the renewal of the cyber insurance policy with Houston Casualty.

Trustee Kelliher reported on the Independent Investment Committee (IIC, Committee), which met on June 18, 2021, and recognized its departing member, Keith Quinton, who served on the Committee for over four years. Next, Larry Johansen, Director of Investments, gave a review of investment returns over recent time-periods, and provided an update on asset allocations and liquidity relative to the effects of the COVID-19 pandemic, focusing on funding requirements for benefit payments, as well as discussing the IIC Work Plan. Mr. Johansen also provided an update on the search for a non-U.S. equity manager, noting that Callan and staff would present final candidates in early fall.

The Committee also voted to recommend to the Board that it revise the U.S. equity benchmark from the S&P 500 Index to the Russell 3000 Index, effective July 1, 2021, along with a related revision to the custom benchmark for U.S. equity performance attribution, also as of July 1.

Trustee Kelliher reported that the Committee voted unanimously on two, two-year contract renewals through August 2023, with Brandywine, and with Loomis Sayles, both global, multi-sector investment managers for NHRS, who each presented at the IIC meeting in May.

The Committee then heard from private equity manager Industry Ventures and following discussion, the IIC voted to commit \$25 million to Industry Ventures Partnership Holdings VI, pending contract and legal review. NHRS has previously committed to Industry Ventures Fund III, IV, and V.

Next, the Townsend Group, NHRS' real estate manager, updated the Committee on the status of the FY 2021 Real Estate Investment Plan, and discussed the FY 2022 plan, which the Committee voted to approve. Trustee Kelliher shared that the Committee also heard from Callan, the NHRS general investment consultant, who presented an extensive review of the System's portfolio on the private equity and private debt assets.

In closing, Trustee Kelliher commended Director Johansen and the Investment Team in remaining steadfast during the pandemic, noting the markets' rebound.

Mr. Johansen then updated the Board on the System's continued total fund improvement across multiple time-periods, including fiscal year-to-date, three years, and five years. He reported that all asset classes are close to target and well within range. He shared that the final numbers for June 30, 2021 would be available in late September. As of May 31, 2021, assets were about \$11 billion.

Next, Mr. Johansen provided the Board with a history of the System's Real Estate investment performance since the System awarded Townsend discretion in 2009, and noted the current, more diverse investment portfolio of 89% U.S., 5% Europe, and 6% Asia. He noted strong performance over the 11-year period, and the goals met in accordance with the FY21 Work Plan. He then gave an overview of the FY22 Work Plan, relative to real estate investments.

Some discussion ensued about real estate investments, and the potential effects of the pandemic on office space. He also summarized the IIC's reasoning for recommending revising the domestic equity benchmark from the S&P 500 to the Russell 3000.

On a motion by Trustee Hart, seconded by Trustee Hannan, the Board voted to accept the recommendation of the IIC that the Board approve the revision to the Investment Policy regarding the domestic equity benchmark from the S&P 500 Index to the Russell 3000, as presented.

In closing, Mr. Johansen gave an overview of agenda topics for the IIC's upcoming July meeting.

Trustee Myers gave his report on the Legislative Committee, which had not met since the June Board meeting. He noted the bills that became law, including HB 173, which requires the IIC to include investment fees in its quarterly report to the Board, and post those reports on the NHRS website, and HB2, which pertains to the application of medical subsidy payments to the state. Mr. Myers shared that NHRS continues to consult with Groom Law, its fiduciary and tax counsel, on receiving an opinion from the Internal Revenue Service regarding the medical subsidy language. He noted that Marty Karlon, Director of Communications and Legislative Affairs, has been in touch with the Governor's Office on this issue.

Next, on behalf of Trustee Coates, Trustee Hart presented the report on the Benefits Committee, which met on July 6, 2021, and reviewed the disability materials that are

in the monthly Board books for Trustees, and whether the Committee would consider reducing the amount of routine documentation, to allow for administrative efficiency and maximize Trustees' time and efforts. After discussing the materials, the Board agreed with the Committee's recommendation, noting that any additional disability documentation would be available upon Trustees' requests. After a brief discussion, Trustee Hart concluded the report, noting the Committee followed its public session with a non-meeting under RSA 91-A, to consult with legal counsel about two recoupment matters.

Trustee Hart then gave the PPCC report, noting the Committee met on June 1 and discussed an evaluation of the Executive Director, agreeing on a six-month mark for measuring performance, and would meet again in August to begin the process. The Committee then heard from Rosamond Cain, Human Resources Director, who presented the proposed changes to the NHRS Employee Handbook, which now represents gender neutrality, and includes an updated dress code, and the addition of an anti-bullying policy, and an anti-racism statement. The PPCC did not take formal action but endorsed the changes to the Handbook and seeks Board approval today.

On a motion by Trustee Kelliher and seconded by Trustee Maloney, the Board voted unanimously to approve the proposed revisions to the Employee Handbook.

Trustee Hart closed his report, noting that the Committee also had a non-public session, under RSA 91-A, to discuss staff compensation.

At this time, Director of IT Frank Clough, along with David Crepeault, Information Systems Security Officer, provided a presentation to the Board, and explained in detail the many layers of high-level applications that IT has in place to protect the System's network, as well as member and beneficiary data. Mr. Clough and Mr. Crepeault discussed the functions of the Cyber Security Framework that NHRS uses, based on the National Institute of Standards and Technology (NIST), to protect the System from cyber risks. Mr. Clough also noted that IT has regular internal and external audits of the network, and receives weekly vulnerability scans from the CyberSecurity Infrastructure Security Agency. He continued with providing an overview of the established policies that help keep staff alert to phishing scams. A brief question-and-answer session followed the presentation.

Next, Executive Director Jan Goodwin gave her report, commenting on the recent move into Phase 2 of the System's COVID-19 transition plan on July 1, with about 75% of staff now working at the office. She reported that KPMs have improved over the past month, with staff achieving 93.9% of the 95% benchmark for the month of June. Ms. Goodwin then informed the Board that NHRS had not heard anything further from the Legislature on the potential audit on investment performance, and noted that the LPAOC would meet the week of July 26. She shared that the last group of about 9,700 COLA notice letters went out today for eligible beneficiaries. She also reported on the Contact Center, which has been in operation for six months, noting that it continues to do very well.

Ms. Goodwin next informed the Board of a sole-source contract request with a state-approved vendor, to enhance the work areas in Member Services to increase employee productivity and reduce noise.

On a motion by Trustee Hart, seconded by Trustee Myers, the Board voted unanimously

to accept the recommendation of the Executive Director that the Board approve the workspace upgrades, as presented in the Board materials, subject to contract and legal review.

Next, Deputy Director and Chief Legal Counsel Tim Crutchfield gave the Legal report, and began with the GASB audits, commending the Employer Audit Team for their work and for Internal Auditor Nancy Cone's direction. Mr. Crutchfield stated that the annual ethics surveys were being prepared and expected to go out in early August.

Director of Finance Gerard Murphy opened his Finance report with the System's fiscal-year-to-date as of May 31, 2021 net position of \$11.046 billion, an increase of about \$100 million from the net position in April, and up by about \$2 billion since last May. Mr. Murphy shared that cash flows are as expected for the month and fiscal year-to-date. He noted that he would have documentation on the projected cash flows for FY22 for the Board at its August meeting.

Next, Mr. Murphy went over the budget vs. actual, noting the System is \$330,000 over budget due to the negative variance of \$2.835 million within the external investment category, and he attributes that to the unexpected strength of the market and associated investment management fees. Within all other budget categories, however, he noted there was a positive variance of \$2.505 million.

Mr. Murphy then reported that on June 25, 2021, the Governor signed HB1, which contains the NHRS FY22-23 Statutory Administrative Budget that the Board adopted in September 2020.

He reported that Finance continues to work with employers to get them set up for electronic payments, with the elimination of the lockbox as of July 1. He stated that, as of June, about half of the employers are set up for electronic payments, and that he expects to have a final number next month.

Mr. Clough provided his IT report, updating the Board on the ongoing statuses of the firewall project, the SocialMiner project, and Security Awareness Training, and noted the completed Microsoft Dynamics project for Finance. Mr. Clough reported that, as of July 12, IT established the ability for members to submit documents securely via My Account, the secure online portal for members and retirees. In addition, IT eliminated the use of Internet Explorer, since Microsoft no longer supports that browser. In closing, he noted that IT met all of its KPMs and had achieved 99% in customer service satisfaction.

Director of Member Services Nancy Miller gave her report, stating that her department is about two-thirds completed with approximately 780 July retirements. Ms. Miller noted the final number is still to be determined due to members rescinding their applications. Ms. Miller reported that Member Services is working with the QDRO specialist on reviewing the QDRO templates with the expectation that they would be in use by the end of this month.

She then updated the Board on the progress Member Services is making with the employer audit corrections, noting it has taken an inventory of remaining Data Reporting System files and manual spreadsheets for processing, and has identified the number of files needing corrections. Member Services has devised a proposal to use temporary help from accounting firms to assist with these adjustments. Lastly, Ms. Miller stated that the JRP had not made a decision on a new, third party administrator and, as a result, would

not be terminating its contract with NHRS before the end of the calendar year.

Following Ms. Miller, Mr. Karlon presented his PIO report, stating that his department received invitations to do presentations this fall from the NH School Administrators Association, and the Association of Counties. In addition, the City of Nashua requested a presentation on the employer rate increase, which Mr. Karlon and Ms. Goodwin have planned for either early August or September. Lastly, Mr. Karlon noted that PIO met all of its KPMs, and mentioned that relative to security awareness, PIO would be sending out an email with security tips for members and retirees in a few weeks.

Next, Ms. Cain gave her HR report, including updates on recruiting, reviewing options for a new payroll vendor, and noting that, as part of Phase 2 of the COVID transition plan, NHRS has eliminated the cap on the number of staff that can be in the building. NHRS is also accepting walk-ins on a limited schedule. She reported that the scheduled transition to Phase 3 for September 1 is under review.

Chair Lesko presented the Consent Agenda, and on a motion by Trustee Roy, seconded by Trustee Mezzapelle, the Board voted unanimously to accept the Consent Agenda, as presented.

There were no travel requests.

Ms. Goodwin then updated the Board on Action Items, noting that all were complete, with the exception of two, one of which the System is awaiting a response from Connecticut and Vermont on the number of retirees that remain in their respective states, and the other, is an answer from the JRP on its decision on a new administrative vendor.

Chair Lesko opened the Checkpoint discussion, recognizing Trustee Roy, who has now been a Trustee for 10 years. He then thanked those who attended today's meeting in person, and encouraged Trustees to be physically present, unless they have a conflict. Lastly, he encouraged the Trustees to refer to the informational materials in their electronic Board binders, particularly the conference resources.

With no further business to discuss, on a motion by Trustee Hannan, seconded by Trustee Kelliher, the Board voted unanimously to adjourn the meeting at 11:42 a.m.

Respectfully submitted,

Christine Rice,
Administrative Assistant